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StanleyBlack&Decker

Student Managed Fund

Stanley Black & Decker(NYSE:SWK)September 24, 2021

Target Price: \$213.34	Dividend Yield: 1.7%	P/E Ratio: 15.9
Current Price: \$185.36	Beta: 1.37	Relative P/E Ratio: 0.70
Stop loss: \$139.02 (25%)	% Held by Institutions: 87.61%	EPS: \$11.14
52 Week High/Low: \$225.00-155.95	Financial Strength: A-	Book Value/Share: 63.41
Market Cap (\$B): \$30.21B		Cash Flow/Share: 13.19

Company Overview

Founded in 1843 in New Britain, CT, Stanley Black & Decker is the world's largest tools & storage company. Stanley merged with Black & Decker in 2010 to create the company we see today. Its business is split in three segments: Tools & Storage (71% of revenues) which is the main part of their business and what they are most known for, Industrial (16% of revenues), and Security (13% of revenues). Stanley Black & Decker is highly focused on innovation and M&A to bring the company growth and diversity in product offerings. Their management team has decades worth of experience and they have a great decision-making process.

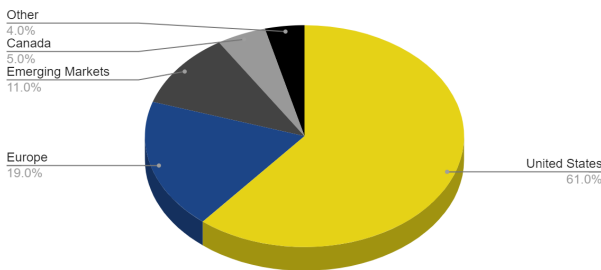
Industry Outlook

Stanley Black & Decker is positioned in the industrial and household tool segment at a Market size of \$77.21B in 2019. The industry has reached a point of maturity but continues to drive towards growth with an expected CAGR of 4% for the next 7 years. The rise of Computer Aided Manufacturing (CAM) is optimizing production efficiency. Moreover, direct sales are driving growth among the top competitors in the segment.

Strategic Framework	
Continue Organic Growth Momentum	
<ul style="list-style-type: none"> Utilize SBD Operating Model As A Catalyst Mix Into Higher Growth, Higher Margin Businesses Increase SBD Weighting Of Emerging Markets 	
Be Selective And Operate In Markets Where	
<ul style="list-style-type: none"> Brand Is Meaningful Innovation Drives Definable & Sustainable Value Proposition Global Cost Leadership Is Achievable 	
Pursue Acquisitive Growth	
<ul style="list-style-type: none"> Build Upon Global Tools Platform Expand Industrial Platform (Engineered Fastening Infrastructure) Commercial Electronic Security Acquisitions [Pending Transformation] 	

Our Long-Term Financial Goals	
Revenue Growth	<ul style="list-style-type: none"> ~4-6% Organic ~10-12% Total
Financial Performance	<ul style="list-style-type: none"> ~10-12% EPS Growth* FCF ≥ Net Income CFROI In 12-15% Range
Dividend	<ul style="list-style-type: none"> Continued Growth
Credit Rating	<ul style="list-style-type: none"> Strong Investment Grade

Revenue by Location



Investment Thesis

Stanley Black & Decker is an attractive company that we believe should be bought at this time. Between their increasingly dominant market share and their track record of excellent performance, they have proven to be a consistent company. Their ability to innovate and acquire new companies year after year will allow them to have continued success over the next 5-10 years. Stanley Black & Decker will continue to acquire companies with strong name brands and solid financials in order to gain market share in emerging and high growth markets. Brands such as Dewalt and Craftsman will bring back existing customers as they consistently release new product lines for professional end users and do-it-yourself consumers. Our DCF valuation projects a margin of safety of 15.7% looking into the future.

Financial Performance & Projections

Stanley, Black & Decker (SWK) (in millions)	Historical Period						Projected Period				
	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
Revenue by Segment:											
Tools & Storage	7,619.2	9,045.0	9,814.0	10,062.1	10,329.7	12,498.9	13,248.9	14,043.8	14,886.4	15,779.6	16,726.4
% Growth	6.7%	18.7%	8.5%	2.5%	2.7%	21.0%	6.0%	6.0%	6.0%	6.0%	6.0%
% Total Revenue	65.7%	69.8%	70.2%	69.7%	71.1%	72.7%	73.8%	74.7%	75.7%	76.6%	77.4%
Industrial	1,864.0	1,974.3	2,187.8	2,434.7	2,352.7	2,682.1	2,762.5	2,845.4	2,930.8	3,018.7	3,109.3
% Growth	-3.8%	5.9%	10.8%	11.3%	-3.4%	14.0%	3.0%	3.0%	3.0%	3.0%	3.0%
% Total Revenue	16.1%	15.2%	15.6%	16.9%	16.2%	15.6%	15.4%	15.1%	14.9%	14.6%	14.4%
Security	2,110.3	1,947.3	1,980.6	1,945.4	1,852.2	2,000.4	1,950.4	1,901.6	1,854.1	1,807.7	1,762.5
% Growth	0.8%	-7.7%	1.7%	-1.8%	-4.8%	8.0%	-2.5%	-2.5%	-2.5%	-2.5%	-2.5%
% Total Revenue	18.2%	15.0%	14.2%	13.5%	12.7%	11.6%	10.9%	10.1%	9.4%	8.8%	8.2%
Total Revenue	11,593.5	12,966.6	13,982.4	14,442.2	14,534.6	17,181.4	17,961.8	18,790.8	19,671.3	20,606.0	21,598.2
% Growth	3.8%	11.8%	7.8%	3.3%	0.6%	18.2%	4.5%	4.6%	4.7%	4.8%	4.8%
Cost of Sales	7,325.5	8,188.3	9,131.3	9,636.7	9,566.7	11,167.9	11,675.2	12,214.0	12,786.3	13,393.9	14,038.8
% Revenue	63.2%	63.1%	65.3%	66.7%	65.8%	65%	65%	65%	65%	65%	65%
Gross Profit	4,268.0	4,778.3	4,851.1	4,805.5	4,967.9	6,013.5	6,286.6	6,576.8	6,884.9	7,212.1	7,559.4
% Revenue	36.8%	36.9%	34.7%	33.3%	34.2%	35.0%	35.0%	35.0%	35.0%	35.0%	35.0%
SG&A	2,609.30	2,982.9	3,143.7	3,008.0	3,048.5	3,779.9	3,951.6	4,134.0	4,327.7	4,533.3	4,751.6
% Revenue	22.5%	23.0%	22.5%	20.8%	21.0%	22.0%	22.0%	22.0%	22.0%	22.0%	22.0%
Other (Expense)/Income	185.9	269.2	287.0	249.1	262.8	309.3	323.3	338.2	354.1	370.9	388.8
% Revenue	1.6%	2.1%	2.1%	1.7%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%	1.8%
EBITDA	1,844.6	2,064.6	1,994.4	2,046.6	2,182.2	2,542.8	2,658.3	2,781.0	2,911.3	3,049.7	3,196.5
% Revenue	15.9%	15.9%	14.3%	14.2%	15.0%	14.8%	14.8%	14.8%	14.8%	14.8%	14.8%
Income Tax Expense	261.7	300.9	416.3	160.8	41.4	305.1	319.0	333.7	349.4	366.0	383.6
Effective Tax Rate	14.2%	14.6%	20.9%	7.9%	1.9%	12.0%	12.0%	12.0%	12.0%	12.0%	12.0%
NOPLAT	1,582.9	1,763.7	1,578.1	1,885.8	2,140.8	2,237.7	2,339.3	2,447.3	2,562.0	2,683.7	2,812.9
Add: D&A	408.0	460.7	506.5	560.2	578.1	635.7	664.6	695.3	727.8	762.4	799.1
% Revenue	3.5%	3.6%	3.6%	3.9%	4.0%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Less: CAPEX	352.9	702.5	544.6	493.2	480.5	652.9	682.5	714.1	747.5	783.0	820.7
% Revenue	3.0%	5.4%	3.9%	3.4%	3.3%	3.8%	3.8%	3.8%	3.8%	3.8%	3.8%
Less: change in NWC	459.6	-348.5	144.9	-564.1	4.6	0	0	0	0	0	0
% Revenue	4.0%	-2.7%	1.0%	-3.9%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Unlevered Free Cash Flow	1,178.4	1,870.4	1,395.1	2,516.9	2,233.8	2,220.5	2,321.4	2,428.5	2,542.3	2,663.1	2,791.3

In terms of financial performance, we are excited by the growth in cash over the past few years on the balance sheet as well as the relatively small amount of debt.

Investment Risks

- (1) Increased competition and pricing pressure can definitely become a risk down the line. Stanley Black & Decker has been able to meet many challenges throughout their existence, and as more companies try to replicate their excellent business model, they will have to constantly adjust to keep their costs and prices low.
- (2) Stanley Black & Decker has a large amount of debt at roughly \$4 Billion. This can cause problems down the line if the Fed raises interest rates. With that said, they haven't had too many problems with debt thus far due to their large cash position and ability to pay this debt down in a timely manner. They have a strong credit profile for a reason, and they will continue to deal with this risk in a professional manner.

ESG Considerations

Stanley Black and Decker has embraced a 2030 Corporate Social Responsibility Strategy that empower makers- thriving in a changing world. Their goal is to "Innovate with Purpose" which refers to a focus on strategies that enhance lives, and improve environmental impacts. They also focus on the principle to "Create a more Sustainable World," referring to operational environment protection. More specifically, SWK is focused on climate change in an effort to go beyond carbon neutral by 2030. They have also embraced DEI principles and Talent Development: a goal to push towards racial equity via their 10 point plan. They also have a sustainable/local supply chain strategy seeking to create a more conscientious approach to raw material sourcing.

ESG Risk Rating

25.9 Medium Risk

Ranking

INDUSTRY GROUP

Machinery

65 out of 480

UNIVERSE

Global Universe

6106 out of 13913

Negligible 0-10 Low 10-20 Medium 20-30 High 30-40 Severe 40+